

**SALT LAKE NEIGHBORHOOD HOUSING  
SERVICES, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2006 and 2005**

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

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# ► Lake, Hill & Myers

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

October 20, 2006

To the Board of Directors of  
Salt Lake Neighborhood Housing Services, Inc.

We have audited the accompanying statement of financial position of Salt Lake Neighborhood Housing Services, Inc. (a nonprofit organization) as of June 30, 2006 and 2005 and the related statements of activities and change in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt Lake Neighborhood Housing Services, Inc. as of June 30, 2006 and 2005, and the change in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of Salt Lake Neighborhood Housing Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 23 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lake, Hill & Myers*

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash	\$ 337,642	\$ 210,710
Restricted cash	1,192,137	1,842,572
Grants receivable	21,641	34,084
Other receivables	750	1,161
Prepaid expense	10,375	15,623
Deposits	70,926	70,926
Mortgage loans receivable, less loss reserve of \$135,649 and \$171,102	2,515,282	3,022,408
Property held for development, rehabilitation and sale, less allowance for loss of \$179,656 and \$184,605	3,918,671	2,807,162
Investment in and advances to related real estate limited liability company	1,663,136	965,000
Property and equipment, net	<u>239,686</u>	<u>271,165</u>
	<u>\$9,970,246</u>	<u>\$9,240,811</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 52,904	\$ 2,364
Accrued expenses	51,816	204,765
Accrued master lease obligation	254,234	300,000
Escrow deposits	32,856	41,601
Earnest money deposits	21,500	-
Notes payable - rehabilitation and development	2,778,612	2,130,733
Long-term debt - revolving loans	<u>1,888,091</u>	<u>1,910,188</u>
Total liabilities	5,080,013	4,589,651
Net assets:		
Unrestricted	1,473,249	1,371,587
Temporarily restricted	123,577	62,000
Permanently restricted	<u>3,293,407</u>	<u>3,217,573</u>
Total net assets	<u>4,890,233</u>	<u>4,651,160</u>
	<u>\$9,970,246</u>	<u>\$9,240,811</u>

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Public support and revenue:		
Contributions:		
Private donors	\$ 7,556	\$ 9,979
Foundations	55,300	72,100
Corporations	121,138	152,150
Special events	21,982	34,491
Direct cost of benefit to donors	(16,755)	(11,510)
Restrictions satisfied	<u>38,293</u>	<u>56,108</u>
	<u>227,514</u>	<u>313,318</u>
Public grants and contracts:		
Restrictions satisfied	<u>429,616</u>	<u>301,640</u>
	<u>429,616</u>	<u>301,640</u>
Program revenue:		
Sale of property held	596,177	333,900
Loan service fees	13,162	32,197
Miscellaneous	14,483	28,083
Interest income	<u>346,637</u>	<u>230,029</u>
	<u>970,459</u>	<u>624,209</u>
Total unrestricted public support and revenue	<u>1,627,589</u>	<u>1,239,167</u>
Expenses:		
Program services:		
Home ownership preservation and promotion	257,215	372,519
Community based economic development	28,840	-
Community building and organizing	194,539	262,529
Asset and property management	549,081	427,174
Real estate development	<u>281,220</u>	<u>220,962</u>
	<u>1,310,895</u>	<u>1,283,184</u>
Supporting services:		
Management and general	170,743	93,672
Fundraising	<u>44,289</u>	<u>24,896</u>
	<u>215,032</u>	<u>118,568</u>
Total expenses	<u>1,525,927</u>	<u>1,401,752</u>
Change in unrestricted net assets	101,662	(162,585)

(continued)

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

(continued)

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Temporarily restricted net assets:		
Public support and revenue:		
Private donors	\$ 1,503	\$ 555
United Way	-	995
Foundations	20,000	21,665
Corporations	64,517	30,893
Restrictions satisfied	<u>(38,293)</u>	<u>(56,108)</u>
	<u>47,727</u>	<u>(2,000)</u>
Public grants and contracts:		
Juvenile Justice	18,000	18,000
Weed and Seed Grant	-	10,000
Youth Corrections	-	5,000
Arts Council	8,000	-
ADDI Grant	20,000	-
Salt Lake County Substance Abuse	70,000	69,013
Community Development Block Grant	169,600	65,200
Neighborhood Reinvestment Corporation	157,866	104,844
Restrictions satisfied	<u>(429,616)</u>	<u>(301,640)</u>
	<u>13,850</u>	<u>(29,583)</u>
Total public support and revenue	<u>61,577</u>	<u>(31,583)</u>
Change in temporarily restricted net assets	<u>61,577</u>	<u>(31,583)</u>
Permanently restricted net assets:		
Public grants and contracts:		
Neighborhood Reinvestment Corporation	<u>50,000</u>	<u>125,000</u>
	<u>50,000</u>	<u>125,000</u>
Program revenue:		
Interest income	<u>25,834</u>	<u>30,797</u>
	<u>25,834</u>	<u>30,797</u>
Total public support and revenue	<u>75,834</u>	<u>155,797</u>
Change in permanently restricted net assets	<u>75,834</u>	<u>155,797</u>
Change in net assets	239,073	(38,371)
Net assets, beginning of year	<u>4,651,160</u>	<u>4,689,531</u>
Net assets, end of year	<u>\$4,890,233</u>	<u>\$4,651,160</u>

See notes to financial statements.

**SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Program Services Expenses					Supporting Services Expenses				
	Home Ownership Preservation and Promotion	Community Based Economic Development	Community Building and Organizing	Asset and Property Management	Real Estate Development	Total program services	Management and general	Fund- raising	Total support services	Total expenses
Salaries	\$ 82,861	\$ 17,263	\$ 107,028	\$ 62,145	\$ 48,335	\$ 317,632	\$ 110,785	\$ 27,620	\$ 138,405	\$ 456,037
Benefits	8,358	1,741	10,795	6,268	4,875	32,037	11,079	2,786	13,865	45,902
Payroll taxes	12,172	2,536	15,722	9,129	7,100	46,659	13,848	4,057	17,905	64,564
Total salary and related expenses	103,391	21,540	133,545	77,542	60,310	396,328	135,712	34,463	170,175	566,503
Professional fees	6,244	1,301	8,065	4,683	3,642	23,935	5,179	580	5,759	29,694
Supplies	2,380	496	3,750	1,785	1,389	9,800	4,343	793	5,136	14,936
Communications	1,969	438	2,516	1,532	1,203	7,658	2,626	656	3,282	10,940
Occupancy	1,876	417	2,397	1,459	1,146	7,295	2,501	625	3,126	10,421
Repairs and maintenance	784	174	2,535	14,412	2,227	20,132	1,045	261	1,306	21,438
Travel	1,149	255	1,468	894	702	4,468	1,532	383	1,915	6,383
Conferences and marketing	-	-	2,010	-	-	2,010	-	1,480	1,480	3,490
Insurance	7,152	1,490	9,238	5,364	4,172	27,416	1,430	954	2,384	29,800
Interest	95,565	-	-	6,000	-	101,565	-	-	-	101,565
Training	4,357	-	1,866	-	1,866	8,089	-	-	-	8,089
Miscellaneous	24,524	1,193	18,317	4,198	3,281	51,513	7,159	1,790	8,949	60,462
Cost of property sold	-	-	-	425,381	197,058	622,439	-	-	-	622,439
Property tax expense	-	-	-	455	-	455	-	-	-	455
Depreciation	6,912	1,536	8,832	5,376	4,224	26,880	9,216	2,304	11,520	38,400
Loan closing costs	912	-	-	-	-	912	-	-	-	912
Total Expense	\$ 257,215	\$ 28,840	\$ 194,539	\$ 549,081	\$ 281,220	\$ 1,310,895	\$ 170,743	\$ 44,289	\$ 215,032	\$ 1,525,927

See notes to financial statements.

**SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Program Services Expenses				Supporting Services Expenses			
	Home Ownership Preservation and Promotion	Community Based Economic Development	Community Building and Organizing	Asset and Property Management	Real Estate Development	Management and general	Fund- raising	Total support services
Salaries	\$ 156,375	\$ -	\$ 150,686	\$ 50,286	\$ 17,138	\$ 47,945	\$ 13,376	\$ 61,321
Benefits	22,130	-	18,804	7,454	2,426	7,751	1,893	9,644
Payroll taxes	18,111	-	15,392	5,532	1,985	5,847	1,549	7,396
<b>Total salary and related expenses</b>	<b>196,616</b>	<b>-</b>	<b>184,882</b>	<b>63,272</b>	<b>21,549</b>	<b>61,543</b>	<b>16,818</b>	<b>78,361</b>
Professional fees	10,527	-	8,094	2,189	1,044	4,516	815	5,331
Supplies	4,395	-	11,706	1,244	482	1,740	376	2,116
Communications	3,990	-	3,665	1,246	988	3,293	877	4,170
Occupancy	1,777	-	1,511	381	195	736	152	888
Repairs and maintenance	4,527	-	4,655	1,313	9,378	1,943	416	2,359
Travel	561	-	476	567	61	1,272	48	1,320
Conferences and marketing	598	-	9,446	1,364	66	3,518	1,551	5,069
Insurance	12,028	-	10,222	3,869	1,318	3,689	1,029	4,718
Interest	111,792	-	-	10	27,248	30	-	30
Training	5,493	-	4,148	1,045	535	2,021	418	2,439
Miscellaneous	4,694	-	11,380	1,250	1,100	3,353	1,153	4,506
Cost of property sold	-	-	-	46,318	150,155	-	-	-
Property tax expense	-	-	-	-	5,251	-	-	-
Master lease loss	-	-	-	300,000	-	-	-	-
Depreciation	14,526	-	12,344	3,106	1,592	6,018	1,243	7,261
Loan closing costs	995	-	-	-	-	-	-	-
<b>Total Expense</b>	<b>\$ 372,519</b>	<b>\$ -</b>	<b>\$ 262,529</b>	<b>\$ 427,174</b>	<b>\$ 220,962</b>	<b>\$ 93,672</b>	<b>\$ 24,896</b>	<b>\$ 118,568</b>
								<b>\$ 1,401,752</b>

See notes to financial statements.



SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

STATEMENT OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from contributions, government, contracts, and customers	\$ 1,258,294	\$ 1,133,205
Interest received	372,471	260,826
Cash paid to vendors and employees	(1,424,172)	(1,090,254)
Interest paid	<u>(99,595)</u>	<u>(157,294)</u>
Net cash provided by operating activities	<u>106,998</u>	<u>146,483</u>
Cash flows from investing activities:		
Purchase of property and equipment	(6,921)	-
Decrease in restricted cash	650,435	951,424
Increase in property held	(914,631)	(745,941)
Increase in investment in and advances to related real estate limited liability company	(698,136)	(150,000)
Mortgage loans receivable made	(74,315)	(537,289)
Mortgage loans receivable payments received	424,965	828,248
Increase in deposits	-	(70,926)
Increase in earnest money deposits	<u>21,500</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(597,103)</u>	<u>275,516</u>
Cash flows from financing activities:		
Increase on notes payable - rehabilitation, net	647,879	226,213
(Decrease) increase in escrow deposits	(8,745)	1,637
Decrease in long-term debt - revolving loans, net	<u>(22,097)</u>	<u>(1,713,150)</u>
Net cash provided by (used in) financing activities	<u>617,037</u>	<u>(1,485,300)</u>
Net increase (decrease) in cash	126,932	(1,063,301)
Cash at beginning of year	<u>210,710</u>	<u>1,274,011</u>
Cash at end of year	<u>\$ 337,642</u>	<u>\$ 210,710</u>

(continued)

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

STATEMENT OF CASH FLOWS

(continued)

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	\$ 239,073	\$ (38,371)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	38,400	38,829
Change in loss reserve	(35,453)	(1,796)
Change in property held reserve	(4,949)	(165,976)
Change in assets and liabilities:		
Decrease in grants receivable	12,443	30,516
Decrease in other receivables	411	134
Decrease (increase) in prepaid expenses	5,248	(2,815)
Increase (decrease) in accounts payable	50,540	(6,028)
Decrease in accrued expenses	(152,949)	(8,010)
(Decrease) increase in accrued master lease obligation	<u>(45,766)</u>	<u>300,000</u>
Net cash provided by operating activities	<u>\$ 106,998</u>	<u>\$ 146,483</u>

Schedule of non-cash investing and financing activities:

During the years ended June 30, 2006 and 2005, the Organization transferred loans receivable totaling \$191,929 and \$83,967 to property held for sale, representing property acquired through foreclosure.

See notes to financial statements.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Salt Lake Neighborhood Housing Services, Inc. (the Organization) (a non-profit organization) was organized under the laws of the State of Utah to assist in residential revitalization and promotion of home ownership in target areas in Salt Lake City, Utah. The Organization's current primary target areas include the Jackson, Onequa, and Guadalupe neighborhoods, also known as the Fair Park area. The following programs are currently in operation:

Home Ownership Preservation and Promotion program provides financing for qualified first-time homebuyers and for home improvement and construction loans for persons who are unable to obtain financing from traditional sources. These individuals are usually considered too "high-risk" by financial institutions. The program also provides home buyer education, financial fitness, counseling, and down payment assistance grants.

Community Based Economic Development program provides activities that improve commercial economic conditions in the community. This program began during the fiscal year ended June 30, 2006.

Community Building and Organizing program provides community organizing and other activities that help residents and other stake holders come together to develop and provide leadership to build a strong community. The program includes the Youthworks project, which provides home construction and improvements using troubled youth from target areas. These participants assist loan clients with construction and learn job skills for future employment.

Asset and Property Management program includes long-term responsibilities of ownership of real estate.

Real Estate Development program provides activities involved in developing residential, commercial, and multi-family real estate.

Financial Statement Presentation

The accompanying financial statements of the Organization have been prepared using the accrual method of accounting.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Net assets of the Organization are reported according to the following three classes of net assets:

Unrestricted - accounts for unrestricted assets (net of related liabilities) available for support of the Organization's operations. Assets designated by the Board of Directors for a specific purpose also are accounted for in this fund.

Temporarily Restricted - accounts for resources currently available for use, but expendable only for purposes specified by the donor.

Permanently Restricted - accounts for gifts requiring in perpetuity that the principal be invested and the income only be used.

#### Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand and highly liquid investments with original maturities of three months or less. Restricted cash is not considered a cash equivalent.

#### Contributions

Contributions are recorded as revenue when cash is received or the Organization receives an unconditional promise to give from the donor. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

#### Mortgage Loans Receivable and Loan Loss Reserve

Mortgage loans receivable are stated at the unpaid principal amount reduced by the loan loss reserve and deferred loan origination fees. Interest on the loans is calculated using the simple interest method on daily balances of the principal amount outstanding. Interest rates range from zero percent to eight percent with monthly payment terms ranging from one to thirty years. The loans are secured by real property.

The loan loss reserve is maintained at a level considered adequate to provide for estimated future credit losses. The reserve is increased by provisions charged to operating expense and reduced by net charge-offs.

#### Property Held For Development, Rehabilitation and Sale

Property held for development, rehabilitation and sale represents property purchased in target areas for development and rehabilitation. Once rehabilitation is complete, these properties are sold to third parties.

Management reviews property held for development, rehabilitation and sale to determine estimated net realizable values. Estimated amounts in excess of net realizable values are reduced to their net realizable values and reflected in the allowance for loss.

### Property and Equipment

Property and equipment are recorded at acquisition cost or, where donated, at estimated market value at the date of the donation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, which range from 3 to 15 years. Expenditures for repairs and maintenance are charged to expense as incurred.

### Donated Services

Amounts for donated services are reflected in the financial statements if the services create or enhance nonfinancial assets. The Organization pays for most services requiring specific expertise. No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

### Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

### Nonprofit Status

The Organization was organized as a nonprofit corporation in accordance with the laws of the State of Utah and is exempt from federal income taxation under provisions of Section 501(c)(3) of the Internal Revenue Code.

### Functional Expenses

The Organization allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are directly classified to that program or service. Other expenses that are common to several functions are allocated on a reasonable and systematic basis.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Long-lived Assets

The Company reviews long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as measured by a comparison of estimated future cash flows (undiscounted and without interest charges) to the carrying value of the asset. Assets held for sale are written down to their fair value, less cost to sell.

## Reclassifications

Certain reclassifications have been made to the June 30, 2005 amounts to be consistent with the classifications used at June 30, 2006.

## NOTE 2 - CASH BALANCES:

The Organization's cash is held in federally insured bank accounts. The cash balances in four banks exceed the federally insured limit of \$100,000 by a total of approximately \$100,000 and \$900,000 at June 30, 2006 and 2005. This is considered a concentration of credit risk. Management does not believe the credit risk associated with this concentration is significant.

## NOTE 3 - RESTRICTED CASH:

At June 30, 2006 and 2005, restricted cash included \$159,187 and \$254,668 held as a reserve for loans sold to Neighborhood Housing Services of America (NHSA) as more fully described in Note 4. It also includes cash related to the Community Development Financial Institutions loan, Community Development Block Grants, Home Program Grants, and Neighborhood Reinvestment Corporation Grants which must be used for lending, development and rehabilitation activities.

Restricted cash consists of the following:

	June 30,	
	2006	2005
Escrow and suspense funds	\$ 32,856	\$ 41,601
Community Development Financial Institutions	-	27,280
Community Development Block Grant	906,264	825,475
Neighborhood Reinvestment Corporation	-	500,038
Neighborhood Housing Services of America	159,187	254,668
Home Program	93,830	193,510
	<u>\$1,192,137</u>	<u>\$1,842,572</u>

## NOTE 4 - MORTGAGE LOANS RECEIVABLE:

Mortgage loans receivable were funded through the following sources:

	June 30,	
	2006	2005
Organization assets	\$ 170,210	\$ 498,855
Community Development Block Grant	659,325	713,364
Neighborhood Reinvestment Corporation	88,461	98,383
Community Development Financial Institutions	1,194,677	1,322,720
Revolving loans	538,258	560,188
	2,650,931	3,193,510
Less loan loss reserve	<u>(135,649)</u>	<u>(171,102)</u>
	<u>\$2,515,282</u>	<u>\$3,022,408</u>

During the year ended June 30, 2000, the Organization sold revolving mortgage loans totaling \$2,762,000 to NHSA. The Organization continues to provide mortgage loan services to NHSA for these loans. As part of this sale, the Organization is required to replace or repurchase loans which become more than 90 days delinquent. The Organization is required to secure this obligation by maintaining additional mortgages and/or cash equal to twenty percent of the outstanding principal amount of the mortgages held by NHSA. The balance of these sold mortgage loans total \$1,002,154 and \$1,273,338 at June 30, 2006 and 2005. At June 30, 2006 and 2005, the Organization has classified approximately \$159,000 and \$255,000 as restricted cash to meet this requirement. However, the Organization has the option of using existing mortgage loans to meet this requirement. During the years ended June 30, 2006 and 2005, the Organization was not required to replace or repurchase any loans.

During the year ended June 30, 2005, the Organization sold revolving mortgage loans totaling approximately \$710,000 to NHSA. The Organization continues to provide mortgage loan services to NHSA for these loans. As part of this sale, the Organization is required to replace or repurchase loans which become more than 90 days delinquent. The Organization is required to secure this obligation by making a cash deposit with NHSA equal to ten percent of the outstanding principal amount of the mortgages held by NHSA. The balance of these sold mortgage loans total \$502,871 and \$708,407 at June 30, 2006 and 2005. At June 30, 2006 and 2005, NHSA held on deposit \$70,926 of the Organization's funds as security. In the case of delinquent loans, the Organization has the option of using existing mortgage loans or their deposit to meet the requirement to replace or repurchase loans. During the years ended June 30, 2006 and 2005, the Organization was not required to replace or repurchase any loans.

The Organization provides mortgage assistance primarily to low-to-moderate income individuals. The mortgage loans receivable are considered a concentration of credit risk.

#### NOTE 5 - PROPERTY HELD FOR DEVELOPMENT, REHABILITATION AND SALE:

Property held for development, rehabilitation and sale consists of the following:

	June 30,	
	2006	2005
Vacant residential lots	\$ 351,662	\$ 490,992
Residential real estate under rehabilitation or development, or held for sale	<u>3,746,665</u>	<u>2,500,775</u>
	4,098,327	2,991,767
Less allowance for loss	<u>(179,656)</u>	<u>(184,605)</u>
	<u>\$3,918,671</u>	<u>\$2,807,162</u>

NOTE 6 - INVESTMENT IN AND ADVANCES TO RELATED REAL ESTATE LIMITED LIABILITY COMPANY:

The Organization owns a .0067 percent managing member interest in a limited liability company that owns a multi-family low-income housing project (the Project) in the Organization's target area. Investment in and advances to related real estate limited liability company is as follows:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Loan receivable - interest at 1 percent, payable from available Project cash flow, balance due September 29, 2035, secured by the Project's real property.	\$ 378,550	\$ 50,000
Loan receivable - interest at 1 percent, due August 1, 2035. Payments are due from available project cash flow after payment of any deferred development fee. The loan is secured by the Project's real property.	300,000	300,000
Loan receivable - interest at 1 percent. Payment of principal and accrued interest is due June 1, 2035 or potentially upon the sale or refinancing of the Project. The loan is secured by the Project's real property and an assignment of rents.	465,000	465,000
Capital contributed as the .0067 percent managing member of the Project.	<u>519,586</u>	<u>150,000</u>
	<u>\$1,663,136</u>	<u>\$965,000</u>

The Organization has not recorded any interest receivable or interest revenue related to these notes receivable as of June 30, 2006. The Organization will record interest revenue when it is received. The Organization does not expect to receive any payments on these notes during the next fiscal year.

In connection with the Organization's role in the development of the Project, the Organization entered into a master lease agreement relative to the Project's commercial space as more further described in Note 8. The Organization has also made certain commitments and guaranties as more fully described in Note 13.

In connection with the Organization's role in the development of the Project, the Organization is to receive a development fee. During the year ended June 30, 2004, the Organization received \$60,000 as a development fee payment. The \$60,000 payment was recorded as development fee revenue during the year ended June 30, 2004. The remaining fee of approximately \$985,000 is primarily payable from available project cash flow, and therefore it is uncertain whether the Project will have sufficient cash flow to pay the fee. Accordingly, the Organization has not recorded the unpaid portion of this fee as development fee receivable or revenue as of June 30, 2006 and 2005.



NOTE 7 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 53,158	\$ 53,158
Buildings	315,701	315,701
Building improvements	36,419	34,114
Vehicles	57,583	57,583
Tools	17,100	17,100
Equipment	<u>198,237</u>	<u>193,621</u>
	678,198	671,277
Less accumulated depreciation	<u>(438,512)</u>	<u>(400,112)</u>
	<u>\$ 239,686</u>	<u>\$ 271,165</u>

NOTE 8 - ACCRUED MASTER LEASE OBLIGATION:

Effective September 2005, the Organization and a for-profit developer, acting as co-managing members of the related real estate limited liability company discussed in Note 6, entered into a master retail lease agreement (the Agreement) with the Project. Under the terms of the Agreement, the co-managing members committed to lease 13,000 square feet of retail space at the Project for \$156,000 per year from October 1, 2005 to September 30, 2010. The co-managing members are also responsible for common area maintenance costs and a proportionate share of property taxes. The Project has the unilateral right to extend the term of the lease an additional five years until September 30, 2015 by giving notice to the co-managing members. The Organization expects the Project to exercise this extension provision.

The co-managing members will sub-lease the commercial space to unrelated tenants. At June 30, 2006 and 2005, the Organization has recorded a liability totaling \$254,234 and \$300,000 representing the discounted, estimated future cash flows the Organization expects to pay to the Project, net of sub-lease rental receipts, as a result of entering into the Agreement. This estimate is based on expected occupancy of 80 percent, a three percent annual increase in common area maintenance costs and property taxes, a discount rate of six percent, and an estimated sub-lease rental rate of \$10 per square foot.

NOTE 9 - NOTES PAYABLE - REHABILITATION AND DEVELOPMENT:

Notes payable - rehabilitation and development represent amounts borrowed to develop and/or rehabilitate real estate included in property held for development, rehabilitation and sale. These loans consist of the following:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Note payable - Salt Lake City Corporation (SLC), zero interest, principal due when underlying real estate is sold. Secured by real estate included in property held for development, rehabilitation and sale, and cash.	\$ 714,760	\$ 422,946
Note payable - SLC, interest at 2 percent, principal and accrued interest due August 1, 2008. Secured by real estate included in property held for development, rehabilitation, and sale.	300,000	-
Note payable - financial institution, interest at 1 percent, interest only payments due annually on June 1 of each year. All principal and accrued interest is due on June 1, 2014, unsecured.	500,000	500,000
Note payable - Redevelopment Agency of Salt Lake City (SLC RDA), interest at 3 percent, principal and interest are due as certain real estate units are sold, but no later than July 31, 2006. Secured by real estate included in property held for development, rehabilitation and sale.	298,852	242,787
Note payable - SLC RDA, interest at 8 percent, payable as interest is collected on the \$465,000 loan receivable (Note 6), matures June 1, 2035. Secured by corresponding note receivable (see Note 6).	465,000	465,000
Note payable - financial institution, interest at 3.5 percent, interest only payments required quarterly through April 1, 2008, when the principal and any remaining interest is due, unsecured.	<u>500,000</u>	<u>500,000</u>
	<u>\$2,778,612</u>	<u>\$2,130,733</u>

The note payable and any related accrued interest owed to the SLC RDA on its note payable totaling \$465,000 will only be required to be repaid in an amount equal to the principal and interest the Organization receives from the Project under a corresponding note receivable (Note 6). Accordingly, the Organization has not recorded any accrued interest payable or interest expense in the accompanying financial statements related to this note payable.

NOTE 10 - LONG-TERM DEBT - REVOLVING LOANS:

Long-term debt - revolving loans represent amounts borrowed to make loans to individuals living in target areas. These loans consist of the following:

	June 30,	
	<u>2006</u>	<u>2005</u>
Notes payable, interest at 6.25 percent, principal and interest payments required as corresponding loans receivable are collected, secured by the loans made with these loan proceeds. Maturing November 2004. Repaid during the year ended June 30, 2006.	\$ -	\$ 71,246
Notes payable, interest currently at 5 percent but variable up to a maximum of 6 percent based on changes in the previous four year average U.S. Treasury rate. Principal and interest payments required as corresponding loans receivable are collected, secured by loans made with these loan proceeds. Matures as corresponding loan receivables mature.	538,091	488,942
Note payable, interest at 2.3 percent with interest due quarterly. Maturing November 2010.	<u>1,350,000</u>	<u>1,350,000</u>
	<u>\$1,888,091</u>	<u>\$1,910,188</u>

Estimated future maturities of this long-term debt are as follows:

<u>Year ending June 30,</u>	
2007	\$ 14,884
2008	17,032
2009	17,904
2010	18,820
2011	1,369,783
Thereafter	<u>449,668</u>
	<u>\$1,888,091</u>

# NOTE 11 - NET ASSETS:

Net assets consist of the following:

	June 30,	
	2006	2005
Unrestricted net assets:		
Property and equipment	\$ 239,686	\$ 271,165
Investment in and advances to related real estate limited liability company, net of note payable	1,198,136	500,000
Undesignated	<u>35,427</u>	<u>600,422</u>
	<u>1,473,249</u>	<u>1,371,587</u>
Temporarily restricted net assets:		
Neighborhood Reinvestment Corporation Grants	40,000	34,000
Grants to new home buyers	28,000	28,000
Youthworks	47,727	-
Art mural	<u>7,850</u>	<u>-</u>
	<u>123,577</u>	<u>62,000</u>
Permanently restricted net assets:		
Community Development Block Grants	1,592,037	1,566,203
Neighborhood Reinvestment Corporation Grants	<u>1,701,370</u>	<u>1,651,370</u>
	<u>3,293,407</u>	<u>3,217,573</u>
	<u>\$4,890,233</u>	<u>\$4,651,160</u>

Community Development Block Grants are used to make first and second mortgage loans to individuals primarily in the target areas. Grants received and the related interest earned on the related loans are restricted for this purpose.

Permanently restricted Neighborhood Reinvestment Corporation Grants are used for down payment assistance, property acquisition, development, and rehabilitation in target areas. Upon completion of development or rehabilitation, these properties are sold. These grants are restricted for this purpose.

The permanently restricted net assets are invested as follows:

	Community Development Block Grants		Neighborhood Reinvestment Corporation Grants	
	June 30,		June 30,	
	2006	2005	2006	2005
Restricted cash	\$ 906,264	\$ 825,475	\$ -	\$ 500,038
Mortgage loans receivable	659,325	713,364	88,461	98,383
Organization office building	26,448	27,364	-	-
Property held for development, sale or rehabilitation	<u>-</u>	<u>-</u>	<u>1,612,909</u>	<u>1,052,949</u>
	<u>\$1,592,037</u>	<u>\$1,566,203</u>	<u>\$1,701,370</u>	<u>\$1,651,370</u>

#### NOTE 12 - CONCENTRATIONS AND CREDIT RISK:

The Organization provides mortgage loans to low-to-moderate income individuals in the Salt Lake City area. Mortgage loans receivable are a concentration of credit risk. Also, the Organization has a significant investment in real property concentrated in a small section of Salt Lake City. As discussed in Note 2, the Organization has cash held in federally insured bank accounts that exceeds the federally insured limit. Management does not believe the credit risk associated with these concentrations is significant.

#### NOTE 13 - COMMITMENTS AND CONTINGENCIES:

As discussed in Note 4, the Organization has sold revolving mortgage loans to NHSA and continues to service these loans. Under the first sale agreement, the Organization is required to replace or repurchase any loan which becomes more than 90 days delinquent and is required to hold additional mortgage loans and/or cash equal to twenty percent of the outstanding principal amount of these mortgage loans held by NHSA under this agreement. At June 30, 2006 and 2005, the principal balance of the mortgage loans sold to NHSA totaled \$1,002,154 and \$1,273,338. At June 30, 2006 and 2005, none of these mortgage loans were more than 90 days delinquent.

Under the second sale agreement, the Organization is also required to replace or repurchase any loan which becomes more than 90 days delinquent and is required to maintain on deposit with NHSA an amount equal to ten percent of the amount of the outstanding principal amount of mortgage loans held by NHSA under this agreement. At June 30, 2006 and 2005, the principal balance of the mortgage loans sold to NHSA totaled \$502,871 and \$708,407 and NHSA held a deposit of \$70,926 from the Organization. At June 30, 2006 and 2005, none of these mortgage loans were more than 90 days delinquent.

As discussed in Note 6, the Organization owns a .0067 percent managing member interest in a limited liability company that owns a multi-family low-income housing project (the Project). With this role, the Organization has made the following commitments:

##### Construction Completion and Development Deficit Guarantee

The managing member shall cause the final completion of construction to occur and shall advance to the Project an amount equal to all development deficits or operating deficits until the lease-up date. Any such advances shall be deemed to be capital contributions. This guarantee expires once the project achieves breakeven operations as defined by the operating agreement. As of June 30, 2006, the Organization has advanced \$519,586 under this guarantee. The requirements of the lease-up date were met in October 2005 and the Organization's obligation under this guarantee has ended.

#### Operating Deficit Guarantee

The managing member guarantees it will make advances up to \$650,000 (the Organization's share of this totals \$435,500) to the Project to fund operating deficits at any time during the period after the lease-up date until the Project has operated at break-even for at least three consecutive calendar years and the Project has a sufficient operating reserve as defined in the operating agreement. The operating deficit loans shall be non-recourse, non-interest bearing and be payable solely from net cash flow. As of June 30, 2006, no amounts had been advanced under this guarantee agreement.

#### Tax Credit Recapture Guarantee

The managing member guarantees to pay amounts to the investor member if there is a tax credit recapture event. The payment amount shall be equal to any deficiency assessed against the investor member resulting from a tax credit recapture event plus any penalty and interest related to the deficiency and any tax resulting from any payment as a result of this agreement.

#### Tax Credit Availability Guarantee

The managing member guarantees to pay amounts to the investor member if during the tax credit period the actual credits are less than projected credits.

#### NOTE 14 - RETIREMENT PLAN:

The Organization sponsors a defined contribution retirement plan (the Plan). Employees can make contributions to the Plan. After three years of service, the Organization also makes matching Plan contributions on behalf of eligible employees. Organization contributions vest immediately to the employee. During the years ended June 30, 2006 and 2005, Organization contributions to the Plan totaled \$9,854 and \$11,306.

#### NOTE 15 - RELATED PARTY TRANSACTIONS:

Certain members of the Organization's board of directors are employed by lenders who have provided loans to the Organization.

As of June 30, 2006 and 2005, the Organization has made investments in and advances to a related real estate limited liability company totaling \$1,663,136 and \$965,000 as more fully described in Note 6. The Organization has also entered into a master retail lease agreement with this same related party as more fully described in Note 8.

#### NOTE 16 - GRANTS:

At June 30, 2006, the Organization has available HOME Funds of approximately \$425,000 to be used either to originate loans as the Organization finds qualified borrowers or to develop new housing consistent with the terms of the grant contract.

NOTE 17 - UCDC GRANT:

During the years ending June 30, 1999 and 2000, the Organization made grants totaling \$100,000 to Utah Community Development Corporation (UCDC), a Salt Lake City non-profit organization. UCDC used these grant amounts in a home purchase down-payment assistance program which provided \$2,000 interest free loans or grants to low-income recipients. Amounts disbursed under this program will be considered grants to recipients if the recipients do not sell or transfer title to their homes during the first 15 years of their mortgage. If the recipients sell or transfer title to their homes during the first 15 years of their mortgage, the original amount loaned will be repaid to the Organization. Any amounts repaid will be reflected as revenue in the financial statements. During the years ended June 30, 2006 and 2005, \$6,000 and \$3,000 was received under this agreement and recorded as revenue.

**ADDITIONAL INFORMATION**



SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Number</u>	<u>Federal Loan Balances and Expenditures</u>
<u>United States Department of Housing and Urban Development</u>			
Pass-through Salt Lake City:			
Community Development Block Grant	14.218	-	\$ 169,600
HOME Funds (1)	14.239	-	1,957,849
Pass-through NeighborWorks America	14.169	-	11,866
<u>United States Department of the Treasury</u>			
Community Development Financial Institutions Fund (1)	21.020	#991CD001469	1,194,677
<u>Neighborhood Reinvestment Corporation</u>			
Expendable Grant	99.999	-	140,000
Capital Grant	99.999	-	<u>50,000</u>
			<u>\$3,523,992</u>

Significant Accounting Policies

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting and accordingly reflects all significant payables and other liabilities. A summary of Significant Accounting Policies used in the preparation of the financial statements is on pages 9 through 12.

(1) Major program

► Lake, Hill & Myers

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 20, 2006

To the Board of Directors and Management of  
Salt Lake Neighborhood Housing Services, Inc.

We have audited the financial statements of Salt Lake Neighborhood Housing Services, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Salt Lake Neighborhood Housing Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salt Lake Neighborhood Housing Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lake, Hill & Myers*

# ► Lake, Hill & Myers

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 20, 2006

To the Board of Directors and Management of  
Salt Lake Neighborhood Housing Services, Inc.

### Compliance

We have audited the compliance of Salt Lake Neighborhood Housing Services, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Salt Lake Neighborhood Housing Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Salt Lake Neighborhood Housing Services, Inc.'s management. Our responsibility is to express an opinion on Salt Lake Neighborhood Housing Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Salt Lake Neighborhood Housing Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Salt Lake Neighborhood Housing Services, Inc.'s compliance with those requirements.

In our opinion, Salt Lake Neighborhood Housing Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

The management of Salt Lake Neighborhood Housing Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Salt Lake Neighborhood Housing Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lake, Hill & Myers*

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Summary of Auditors' Results

- i. The auditor issued an unqualified opinion on the financial statements of the Organization.
- ii. There are no reportable conditions or material weaknesses in internal control over the financial statements disclosed as a result of the audit of the financial statements.
- iii. The auditor noted no instances of noncompliance which are material to the financial statements of the Organization.
- iv. There are no reportable conditions in the internal control over major programs disclosed as a result of the audit of the financial statements.
- v. The auditor issued an unqualified opinion on compliance with requirements applicable to each major program.
- vi. The auditor identified no findings reported under the caption of Findings.

- vii. Major programs consisted of:

	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>United States Department of Housing and Urban Development</u>		
HOME Funds	14.239	\$1,957,849
Community Development Financial Institutions	21.020	\$1,194,677

- viii. The dollar threshold to distinguish Type A and Type B programs was \$300,000. Programs were selected to meet the percentage coverage rule of OMB Circular A-133 §\_\_\_\_.520(f).
- ix. The Organization did not qualify as a low-risk auditee.

Audit Findings

There are no audit findings resulting from the audit.

SALT LAKE NEIGHBORHOOD HOUSING SERVICES, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2005

<u>Ref</u>	<u>Finding</u>
05-1	The Organization requested and received approval to change the use of Community Development Financial Institutions (CDFI) loan proceeds from financing rehabilitation loans to financing refinance loans. However, the specific loan qualification criteria was not well defined. This finding was resolved during the year ended June 30, 2006.
05-2	The Organization lent or refinanced at least three loans using CDFI funds to borrowers who did not meet applicable low-income requirements. This finding was resolved during the year ended June 30, 2006.
05-3	For new loans issued during the year, no loan file checklists were included. This finding was resolved during the year ended June 30, 2006.